

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-04 H-02 INR-07 L-03

NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

AID-05 COME-00 EB-07 FRB-01 TRSE-00 XMB-04 OPIC-06

CIEP-02 LAB-04 SIL-01 OMB-01 INT-05 SAM-01 /106 W

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R 221337Z OCT 76

FM AMEMBASSY STOCKHOLM

TO SECSTATE WASHDC 8999

INFO AMEMBASSY BONN

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY OSLO

UNCLAS STOCKHOLM 5889

E.O. 11652: N/A

TAGS: EIND, EINV, EMIN, ENRG, SW

SUBJECT: STEELWORKS 80 PROJECT SHELVED

REF: STOCKHOLM 1514, STOCKHOLM A-60, 75 STOCKHOLM 5283

1. REFTELS REPORT ON SWEDISH PLANS TO ESTABLISH MAJOR STEEL PROJECT IN NORTHERN SWEDEN AT LULEA. PROJECT WAS REPORTED IN STOCKHOLM 1514 AS MAJOR TRADE OPPORTUNITY. THE BOARD OF DIRECTORS OF NORRBOTTENS JARNVERK AB (NJA) MET ON OCTOBER 19 AND THEN ANNOUNCED THAT THE STEELWORKS 80 PROJECT WAS BEING SHELVED. THE REASONS FOR SHELVING THE PROJECT WERE TWOFOLD. FIRST, NJA WORLD MARKET STUDIES HAD CONVINCED THEM THAT DEMAND FOR STEEL WOULD BE INSUFFICIENT TO JUSTIFY THE PROJECT. SECONDLY, LOSSES AT NJA, WHICH ARE NOW RUNNING AT AROUND ONE MILLION KRONER PER DAY REPEAT PER DAY DEMAND IMMEDIATE REORGANIZATION AND RATIONALIZATION OF PRODUCTION; AND PRECLUDE OPENING OF A MAJOR NEW PROJECT.

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2. NJA HAD RECENTLY HIRED ULF AF TROLLER, A RENOWNED CONSULTANT ON REORGANIZATION OF COMPANIES. AF TROLLER

HAS SAID PUBLICLY THAT NJA NEEDS ALMOST TWO BILLION KRONER JUST TO MEET ACCUMULATED DEBTS AND WILL NEED AS MUCH AS THREE BILLION IN ADDITION FOR THE INVESTMENTS WHICH WILL PUT NJA OPERATIONS BACK INTO THE BLACK. THE MAJOR NEED IS FOR FURTHER PROCESSING THE CRUDE STEEL NOW PRODUCED BY NJA; I.E., TO FURTHER PROCESS BILLETS AND INGOTS.

3. THIS ACTION IS NO SURPRISE. AS REPORTED IN STOCKHOLM A-60 JOHN OLOF EDSTROM, MANAGING DIRECTOR OF NJA, RESIGNED IN FEBRUARY IN PROTEST OF AN APPARENT SCALING DOWN OF THE STEELWORKS 80 PROJECT. PLANS FOR THE PROJECT HAD AT ONE TIME REACHED THE SCALE OF A \$2.7 BILLION INVESTMENT WHICH WOULD HAVE PRODUCED SOME FOUR MILLION TONS OF CRUDE STEEL AND WOULD HAVE INVOLVED GERMAN PRIVATE INVESTMENT (KRUPP), AS WELL AS SWEDISH (STORA KOPPARBERG AB) IN EXPANDING ROLLING MILLS. THE TWO PRIVATE PARTICIPANTS PULLED OUT EARLIER THIS YEAR, AND PLANS FOR OVERALL STEEL PRODUCTION WERE SCALED DOWN TO A PRODUCTION LEVEL OF 2.6 MILLION TONS PER YEAR.

4. ALTHOUGH THERE HAS BEEN NO NATIONWIDE REACTION TO THIS ANNOUNCEMENT, THE MUNICIPALITY OF LULEA HAS REACTED STRONGLY AND BITTERLY. ACCORDING TO PRESS REPORTS, LULEA HAD INVESTED SOME 250 MILLION KRONER IN HOUSING AND OTHER FACILITIES TO SERVE THE STEELWORKS 80 PROJECT. THE MUNICIPALITY IS NOW DEMANDING GOVERNMENT COMPENSATION.

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